

MINUTES

BOARD OF TRUSTEES OF THE PUBLIC EMPLOYEES' RETIREMENT FUND 143 West Market Street, Suite 500 Indianapolis, IN 46204

January 16, 2002

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Nancy Turner
Teresa Ghilarducci
Steven Miller

Others Present

Mike Gery, Executive Assistant to the Governor
Diana Hamilton, Special Liaison to the Governor for Public Finance
Stephanie Rhinesmith, Public Finance Office
Stephanie Grieser Braming, William M. Mercer Investment Consulting
Micah Fannin, William M. Mercer Investment Consulting
Mary Beth Braitman, Ice Miller
Eric Swank, Ice Miller
Doug Todd, McCready & Keene, Inc.
Karen Franklin, National City Bank
E. William Butler, PERF Executive Director
Patricia Gerrick, PERF Chief Investment Officer
Tim Legesse, PERF Investment Analyst
Joseph Duncan, PERF Investment Analyst
Tommie Wilson, PERF Investment Assistant
Diann Clift, PERF MIS Director
Ed Gohmann, PERF Legal Counsel
Doug Mills, PERF Chief Financial Officer
Jim Osborn, PERF Project Director
Kevin Scott, PERF Director of Benefits Administration
Kenneth Stoughton, PERF Director of Human Resources
Lynda Duncan, Minute Writer

ITEMS MAILED TO THE BOARD PRIOR TO MEETING

- A. Agenda of January 16, 2002 Meeting
- B. Minutes:
 - ❑ December 14, 2001 Board of Trustees Meeting
 - ❑ December 14, 2001 Benefits Administration Committee Meeting
 - ❑ Reports, Summaries, Memorandums and/or Letters Concerning:
 - ❑ Senate Bill No. 59, House Bill LS 7250
 - ❑ Aging Charts on Applications Processing
 - ❑ Press Article on Enron Suit
 - ❑ Schedules of PERF Fund Expenses December YTD

A quorum being present, the meeting was called to order.

1. MINUTES APPROVAL

MOTION duly made and carried to approve the Minutes of the December 14, 2001 meeting of the Board of Trustees.

Proposed by: Steven Miller
Seconded by: Richard Doermer
Votes: 5 for, 0 against, 0 abstentions

2. DISCLOSURES

Mr. Doermer – Bank One stock ownership.

3. ADMINISTRATIVE

EXECUTIVE DIRECTOR'S REPORT

- Bill Status Report (Public Pensions). Mary Beth Braitman of Ice Miller provided a summary of the progression of pension-related bills through Indiana General Assembly.
 - HB1003. 21ST Century Tax Plan. The plan includes an additional \$30 million a year for police and firefighter pension relief for “old” funds. This would represent a significant amount being paid out to the cities and towns each year.
 - HB 1004. State and local fiscal matters and appropriations. This represented a \$15 millions per year pay out for the next two years for the Teachers' Retirement Fund COLA.

- HB 1054. Public safety officer's' survivors' benefits. This bill would add health insurance to the surviving spouse and children receiving benefit for a line of duty death.
- HB1065. Annual PERF cost of living adjustment. The inclusive increase is subject to annual evaluation and is subject to governor approval. This would not be a permanent COLA. It was noted that the TRF COLA (HB 1064) and the PERF COLA were now separated.
- HB 1081. Line of duty health care expenses for police and firefighters. This would provide for entitlement to payment of medical and hospital care expenses for a police officer or firefighter injured or having contracted an illness in the line of duty.
- HB1082. Public employees' personnel records. This would allow the public to have access to information in the personal file of a public employee concerning findings of fact and decisions in which final action had been taken and that resulted in the employee being suspended without pay or discharged. Concern was expressed that this access law might encroach on the confidentiality of records provisions granted to PERF last session.
- HB1086. TRF military service credit. This provides for Indiana State Teachers' Retirement Fund (TRF) service credit for military service performed before teacher training and service. PERF has received an inquiry about providing PERF military service credit.
- HB1155. 1977 Fund retirement benefits. This provides that a member of the 1977 Police Officers' and Firefighters' Pension and Disability Fund who has completed 20 years of service may retire at 50 years of age, instead of 52 years of age.
- HB1182. Tax deduction for federal retirement benefits. This provides an adjusted gross income tax deduction for Indiana retirement funds. This would reduce the difference between the Federal and State retirees tax allowances.
- HB1186. Pension base for police officers and firefighters. This would increase the amount of the police and firefighters pension base.
- HB1190. Deductions from 1977 Fund benefits. This would permit PERF to make deductions for certain purposes from a disability, retirement, or survivor benefit paid by the 1977 Fund. It was noted that administration of the bill could entail a considerable additional workload for PERF.

- HB1245. Withholding from pensions for child support. This would also entail an additional administrative burden for PERF. It was noted that funds that work with domestic relation's orders have a dedicated staff dealing solely with this issue.
- HB1356. Various tax matters. This is a traditional bill to update the state law reference to the Internal Revenue Code. This usually does not concern PERF. This year, it is tied to the new tax bill. If this bill does not pass, it will create a disconnect between Federal and Indiana tax allowances. This would also require education and communication on the tax changes relating to pension funds between January 01 and January 02 as a result of federal laws.
- HB1359. Health insurance for retired state employees. This defines health insurance entitlements for state employees retiring after June 30, 2002.
- HB1394. Indiana alternative investments. This requires public pension funds to invest 20% of the fund allocated to alternative investments in Indiana alternative investments and would effectively freeze up that money if not invested in Indiana alternative investments.
- SB0058. Magistrate's pensions. This would move the magistrates from civilian PERF to Judges and would constitute a very labor-intensive activity for PERF.
- SB0059. PERF and TRF administrative issues. This bill would permit the pooling of assets between PERF and TRF and other entities for investment purposes. It also permits certain units in the 1977 Fund to buy back additional members' service. The bill will enable PERF members to "cash out" even if they are vested. This bill also liberalizes rollover distributions. It would permit PERF members to purchase at actuarial cost additional service credit. Mr. Doermer noted that enacting of this bill would put greater emphasis on quality of PERF staff and training.

Many of the proposed changes are tied to the new federal tax laws that give more members a great deal of flexibility regarding rolling over distributions. This provides separate options with respect to after-tax dollars. It is a good bill, because it provides excellent planning opportunities for PERF members and the best way to maximize retirement money. However, it will be burdensome to administer. These changes would make PERF an attractive investment option but would involve increased expectations and demands for education. Funds cannot be rolled into the guaranteed fund. The bill has a number of permissive options. The same legislation requires PERF to provide more options for rollovers. The bill adds the ability for members to purchase additional

service, equal to one year for every five years of service. In this way, a person can buy up a higher level by using a rollover from another authorized pension plan. This creates the ability to buy a higher monthly benefit level. Discussion is also underway on the possibility of the State purchasing the service those retiring before a certain date, which would involve some budget impact on the State. The bill also addresses clean up of electronic fund transfer questions raised by the State Board of Accounts.

- SB0060. Deferred Retirement Option Plan (DROP) for police and firefighters. This will enable members to elect to receive a partial lump sum at retirement. The plan will be actuarially neutral and provides a conservative DROP from the point of view of the employer and employee. It will sunset at the end of 2007 when the cities and towns "50% guarantee" from the State Pension Relief Fund expires. This bill will also introduce some changes to the definition of "line of duty" death, with the intention of bringing the bill more in line with the original intent of line of duty provisions.
 - SB0186. Local unit retirement and disability systems. This would authorize a subdivision that is not a participant in the PERF to provide, independently of PERF, retirement, disability, and survivor benefits for its employees.
 - SB0198. Disability benefits for public safety officers. The bill would provide that the death of a police officer or firefighter from cancer or a heart condition related to the police officer's or firefighter's duties is a death in the line of duty.
 - SB0269. PERF vesting for county elected officials. This changes the vestment time in PERF from 10 to 8 years for county officials.
 - SB0280. Venture capital investments. This bill establishes the venture capital fund relating to high technology ventures in Indiana.
 - SB0380. Venture capital tax credit. Provides a tax incentive for investors in qualified Indiana businesses.
 - SB0395. COLA for judges' pensions. This provides a COLA for the judges' pensions.
- Telephone Issue. As discussed at the Board Meeting held on December 14, Mr. Birge advised that, as a result of a series of meetings, the State Hiring Freeze Committee were being asked to sanction the addition of five telephone people to the PERF Staff. It was acknowledged that this was not the long-term solution to PERF's telecommunication problems. Discussions

had also focussed on the provision of the hardware and it was anticipated that this would be compatible with TRF's Centrex system in anticipation of the establishment of a joint TRF/PERF system. The disparity between TRF's already fairly well established form of call center and PERF's lack of equipment was noted. Equipment would be ordered once approval for hiring the additional staff had been received. One of the five recruited will act as the telephone center supervisor.

4. LEGAL Issues.

- Plymouth Case. This involved a dispute over the class of disability awarded to a member of the 1977 Fund in 1996 that was filed by the City of Plymouth. A decision on the case is anticipated in due course.
- Blocks Building Easement. Negotiations over the easement to be granted the redevelopers of the Blocks building have been concluded.
- Diggins Case. The Attorney General's office has provided information on an ongoing case involving a disability grant filed in 1999. A pre-hearing conference has been scheduled in February 02.

5. Information Technology Update.

- SIRIS. Testing had commenced on Phase II (Benefits' Portion) of SIRIS and the system will be fully operational and ready for rollout at the end of March 2002. The project should be complete by June 30, 2002. There will be a Phase III and a Phase VI (dial-in access).
- Back-file Conversion. This project is scheduled to be completed by May 2002. Approximately 7 million documents will have been converted to electronic images.
- Data Cleanup (Navigant).
 - ❑ This project is currently frozen pending discussions with the contractors to define parameters for the information to be obtained. The data currently available can be used but requires refinement. Agreement has yet to be reached on completion of this portion of the project. SIRIS is designed so that all data required for retirement processing is available in one place; however, no matter how good SIRIS is, the information needs to be accurate. Once a contract has been agreed with Navigant, it is estimated that another year will be required to populate the missing data. It was not possible at this point to know when members would be able to go on line.
 - ❑ The intention will be for the Navigant project to look at all of PERF's membership data. This will include areas such as temporary accounts.

Contributions were sometimes received before an account had been processed. In such instances, sub accounts are created. There are also inactive and temporary account issues. Projects could take up to seven years to complete. The scope of the Navigant project is to locate missing data. They are not looking at the impact the data has on PERF business operations. Once all missing data has been recovered, SIRIS will be a more efficient tool for staff but will not be working at maximum efficiency until all service credit data has been verified. Although not operating to full capacity, the workflow has now been automated and the Staff has the ability to look at the document images on line and some increase in efficiency is already apparent.

- After March 28, all information will be moved from IRIS to SIRIS. Although, Stage I is being used now, this is not at the optimum level. Mr. Birge noted concern that SIRIS was an expensive piece of equipment and substantial time and resources had been spent in establishing the system. Negotiations with the Navigant people should be expedited and it was important to identify and populate the missing data as soon as possible. Data analysis should be effected and data processes should be built where necessary. Mr. Birge urged the staff to figure out what kind of contract was required in order to bring this project to a conclusion.

6. Benefits Administration Update. Ms. Turner advised that most of the discussion in the Benefits Administration Committee had focused on the problems in the benefits distribution process. Mr. Scott had provided a production update addressing three areas: Refunds, retirement and new membership application processing.

- Mr. Birge advised that the Board was cognizant of the problems faced by the Benefits Administration Department and asked for more information, to show the priority areas and how new people were being integrated. There were significant time delays in processing the material and this was detrimental to PERF's reputation. Mr. Miller noted that cases were being reported where PERF members were being told that they would have to wait 2 – 4 months before they would receive their first retirement check. This was not acceptable.
- The Board considered that fixing the problems in benefits administration and to become more responsive to customers was now the top priority. Much time had been spent on investment issues and it was time to shift focus to the staffing issues. Mr. Miller suggested that a more specific business plan was required that addressed the deficient areas in refunds, retirement and member applications processing. The first step was to clearly define the goals to be achieved, then to quantify this in terms of resources and establish timelines. Mr. Doermer considered that the CEM Report might provide a useful tool in establishing this.

7. INVESTMENTS

- Investments Committee Meeting. The following items were addressed during the highlights of the Investments Committee Meeting:
 - ❑ Most of the meeting was devoted to alternative investment procedures. The main change proposed was that the procedures should be approved by the full Board. Ms. Gerrick will review the procedures in preparation for presentation at the next investment committee meeting. Areas of responsibility are being defined. This will be staffed and presented for full board approval.
 - ❑ Performance Results. Staff prepared a preliminary performance summary. Manager performance improved during the fourth quarter in line with the rebound in equity valuations. Mercer will provide final results based on audited information next month.
 - ❑ Brandes' initial allocation of \$15 million was funded on November 30, 2001.
 - ❑ Small, Mid and Large Cap Manager searches opened on January 2, 2002. The final date for acceptance of proposals is January 30, 2002.
 - ❑ Enron Update. Mr. Gohmann advised that a meeting would be held with the Attorney General's office to discuss the bankruptcy issue. He had scheduled a meeting with an attorney at Ice Miller to address the securities litigation aspects, to ensure that PERF does not fail to complete required formalities and that all claims for bankruptcy had been filed. The court will establish the lead plaintiff in the class-action suits.
- Market Update. Ms. Grieser provided a handout with market returns and values. This will be provided on a monthly basis. She noted that the Fund was up by 6.5% since September 30. At the end of the year, PERF was down by 1-2% but noted that this was favorable when compared to the results of other funds.

8. ACCOUNTING/FINANCIAL. Mr. Doermer, Mr. Butler and Mr. Mills had met to discuss the budget.

- PERF's systems enabling the development of good budget procedures were weak. It was important to address accountability questions and to develop good budget procedures. The aim of the Budget Committee would be to develop a system whereby the Board would be provided with a good sense of

the current situation and to follow the progress through the course of the year to determine how well we are doing compared to pre-determined targets. By May, there should be a good outline of the figures, and a meaningful budget for the Board to consider should be developed soon after.

- It was noted that in the previous fiscal year, PERF had spent \$23 million on large projects such as SIRIS. Therefore, the Board's concerns that SIRIS should effectively serve its function appeared to be well placed.
- Mr. Mills advised of the need to have an accounting system in place to allow reporting by department rather than one overall agency. Suitable software packages would be identified to facilitate this process. Year to date expenditure through December will be broken down into operating expenses. By the end of June 30, 2002, a new basis for calibrating future figures will have been established. Some of the larger expenses for the year to date include: Navigant, Data Clean-up and Contractual Services. Eclectic currently manages IT operations for the IRIS system (which PERF is still running until the switch over to SIRIS is made). Currently, double expenses are being incurred with Convansys managing the SIRIS operation).
- The Audit/Budget Committee will meet in Muncie on January 31, 2002.

9. NEXT MEETING

The next meeting of the Board will be held on Friday, February 8, 2002 at 1.00 p.m.

10. EXECUTIVE SESSION

An Executive Session to discuss litigation issues followed the Board Meeting.

11. ADJOURNMENT

There being no further business, the meeting was adjourned.